

Message Text

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ACTION ARA-14

INFO OCT-01 EA-10 ISO-00 EB-08 L-03 H-01 CIAE-00

INR-10 NSAE-00 /047 W

-----062117 181426Z /53

R 172005Z JUL 78

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 9851

USDOC WASHDC

INFO AMEMBASSY TOKYO

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E. O. 11652: N/A

TAGS: EGEN, EMIN, BBSR, CI

SUBJECT: U.S./CHILEAN MINING VENTURE FILES A CONTROVERSIAL BANK-
RUPTCY

1. MINERA SAGASCA S.A., A COPPER MINING COMPANY OWNED 59 PERCENT BY CONTINENTAL COPPER AND STEEL INDUSTRIES, INC., OF NE JERSEY, WAS DECLARED IN BANKRUPTCY BY A CHILEAN COURT ON JULY 5, 1978. THE COURT'S RULING WAS BASED ON AN EARLIER DECISION BY THE FIRM'S BOARD OF DIRECTORS TO TERMINATE OPERATIONS IN CONSEQUENCE OF THE COMPANY'S INABILITY TO HONOR US\$ 40 MILLION IN DEBTS.

2. THE MINISTRY OF ECONOMY, HOWEVER, DISALLOWED THE BANKRUPTCY BY IMMEDIATELY INTERVENING AND NAMING AN ADMINISTRATOR WHO WILL RUN THE FIRM WITH FULL POWERS FOR A PERIOD OF 18 MONTHS. AMONG THE INSTRUCTIONS GIVEN TO THE ADMINSTRATOR IS A FLAT PROHIBITION AGAINST PAYING THE FIRM'S OUTSTANDING DEBTS EXCEPT THOSE NECESSARY TO MAINTAIN ON-GOING OPERATIONS.

3. REPORTEDLY, THE GOVERNMENT'S INTERVENTION WAS MOTIVATED BY THE FACT THAT MOST OF SAGASCA'S \$40 MILLION IN LIABILITIES IS OWED TO CONTINENTAL COPPER AND STEEL - THE MAJORITY EQUITY SHAREHOLDER. MOREOVER, ACCORDING TO ONE OF SAGASCA'S EXECUTIVES,
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THE MINE HAS BEEN OPERATING AT A PROFIT SINCE EARLY 1977. THIS HAS ALSO BEEN CONFIRMED BY RELIABLE INDUSTRY SOURCES WHO CLAIM THAT THE MINE HAS CONSIDERABLE LONG-TERM POTENTIAL. DESPITE ITS POOR PLANT SITE (TWICE IN TEN YEARS IT HAS BEEN SEVERELY DAMAGED BY FLOODS) AND THE FACT THAT THE OREBODY HAS BEEN ONLY VAGUELY DEFINED, SOME KNOWLEDGEABLE OBSERVERS BELIEVE THAT SAGASCA COULD CONTINUE TO BE A PROFITABLE VENTURE FOR MANY YEARS. ALSO,

KEENLY AWARE OF THE UNDESIRABLE EMPLOYMENT EFFECT ON AN ALREADY ECONOMICALLY DEPRESSED AREA, THE GOC ARGUES THAT SHUTTING DOWN THE FIRM UNDER THESE CONDITIONS DOES NOT MAKE ECONOMIC SENSE.

4. THE GOVERNMENT'S INTERVENTION HAS SURPRISED THE LOCAL BUSINESS COMMUNITY ALMOST AS MUCH AS CONTINENTAL COPPER AND STEEL'S DECISION TO DEMAND PAYMENT ON THEIR LOANS TO SAGASTA, THUS FORCING THE COMPANY OUT OF BUSINESS. WE HAVE SO FAR BEEN UNABLE TO DETERMINE WHY CONTINENTAL HAS CHOSEN THIS UNEXPECTED OPTION. NOR IS IT CLEAR WHAT ACTION WILL BE TAKEN BY THE GOC DURING AND AFTER THE INTERVENTION PERIOD. MEANWHILE, ACCORDING TO A STATEMENT ISSUED IN TOKYO AND REPORTED HERE BY THE LOCAL PRESS, THE MITSUBISHI METAL COPR. CLAIMS THAT THE GOC HAS ASKED THAT COMPANY, TOGETHER WITH THE DOWA MINING COMPANY AND THE MITSUI MINING AND SMELTING CO., TO CONSIDER TAKING OVER THE MANAGEMENT OF SAGASCA. THE GOC HAS NEITHER CONFIRMED NOR DENIED THIS REPORT.

5. THAT THE GOC IS CONSIDERING SUCH A MANAGEMENT CONTRACT IS QUITE PLAUSIBLE. THE FEW PREVIOUS AND SIMILAR GOC INTERVENTIONS HAVE SO FAR LED TO A PROGRESSIVELY DETERIORATING FINANCIAL CONDITION OF THE INTERVENED FIRMS. PERHAPS RECOGNIZING THIS POOR TRACK RECORD, THE GOC HAS ASKED FOR EXPERT HELP. THE JAPANESE FIRMS ARE NOT UNINTERESTED PARTIES EITHER. REPORTEDLY, THEY COLLECTIVELY HOLD \$ 10 MILLION IN SAGASCA DEBT JUNIOR TO THAT OF CONTINENTAL. THEREFORE, THEY WOULD OBVIOUSLY BENEFIT FROM CONTINUED MINE OPERATIONS.

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6. PLEASE ENTER SUBSTANCE OF THIS TELEGRAM IN WTDR SYSTEM. REFERENCE WTDR SANTIAGO 7798, SEPTEMBER 22, 1977. LANDAU

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: JOINT VENTURES, BANKRUPTCIES, MINING INDUSTRY
Control Number: n/a
Copy: SINGLE
Draft Date: 17 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SANTIA05309
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780294-0740
Format: TEL
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780752/aaaabroz.tel
Line Count: 98
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 95e47f72-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1985466
Secure: OPEN
Status: NATIVE
Subject: U.S./CHILEAN MINING VENTURE FILES A CONTROVERSIAL BANK- RUPTCY
TAGS: EGEN, EMIN, BBSR, CI, US
To: STATE COM
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/95e47f72-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014